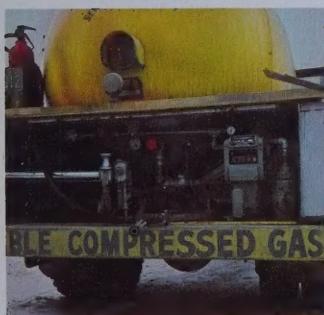
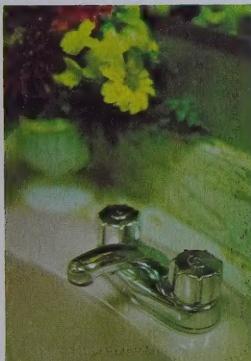
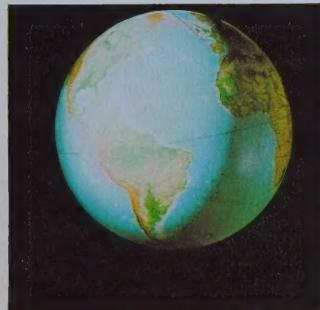


FOR EVERYTHING THAT FLOWS

EMCO



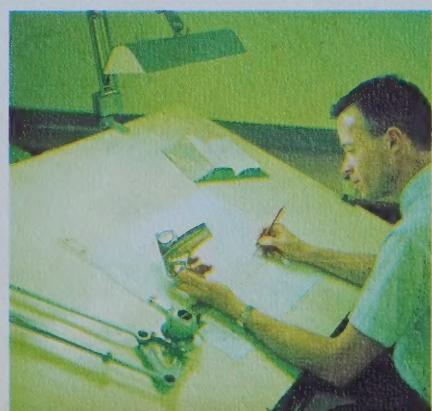
1967 annual report





FOR EVERYTHING THAT FLOWS 1967 ANNUAL REPORT

*This is Emco . . .
new product development through
engineering research.*



DIRECTORS

JOHN W. ADAMS, F.C.A., London, Ontario
Vice-President, Finance & Treasurer, Emco Limited

C. NORMAN CHAPMAN, London, Ontario
Executive Vice-President and Assistant General Manager,
Emco Limited

W. HAROLD EVANS, Toronto, Ontario
Director, Honeywell Controls Limited

HON. LOUIS P. GÉLINAS, Montreal, Quebec
Consultant to Geoffrion, Robert & Gélinas, Co.

CHARLES H. IVEY, London, Ontario
Director, Emco Limited

C. ROBERT IVEY, Toronto, Ontario
President, Multi-Grind Limited

PETER J. IVEY, London, Ontario
President and General Manager, Emco Limited

FREDERICK W. P. JONES, London, Ontario
Professor, School of Business Administration,
University of Western Ontario

W. JACKSON SCHULTZ, Short Hills, New Jersey
President and Chief Operating Officer, Wheaton, Inc.

JOHN H. STEVENS, London, Ontario
Chairman of the Board, Emco Limited

ROBERT F. WHEATON, Short Hills, New Jersey
Chairman and Chief Executive Officer, Wheaton, Inc.

OFFICERS

JOHN H. STEVENS
Chairman of the Board

PETER J. IVEY
President and General Manager

C. NORMAN CHAPMAN
Executive Vice-President and Assistant General Manager

JOHN W. ADAMS, F.C.A.
Vice-President, Finance and Treasurer

STUART F. SMITH
Vice-President, Manufacturing

RALPH S. MacLEAN
Vice-President, Wholesale Division

A. ROBERT MARTIN, C.A.
Comptroller and Secretary

WILLIAM M. EAGER
Assistant Treasurer

TRANSFER AGENT & REGISTRAR

ROYAL TRUST COMPANY
Toronto, Montreal and Winnipeg

AUDITORS

PEAT, MARWICK, MITCHELL & CO.
London, Canada.



*This is Emco . . .
electric induction furnaces pour molten metal.*



CONTENTS

3. Financial Highlights
4. Report of Chairman and President
6. International Operations
7. Principal Divisions and Subsidiaries
- 8-10. Consolidated Financial Statements
10. Notes to Financial Statements
11. Auditors' Report to the Shareholders
12. Ten Year Financial Summary
14. Financial Review
15. Emco Buys Wheaton
16. Emco Wholesale Division on the Move
18. New Products
20. For Everything That Flows

FINANCIAL HIGHLIGHTS

| | 1967 | 1966 |
|--|--------------------|--------------------|
| Sales — increased 2.8% | \$74,325,000 | \$72,331,000 |
| Net earnings — decreased 12.8% | 1,721,000 | 1,973,000 |
| Earnings per common share — decreased 13.5% | 1.35 | 1.56 |
| Dividends per common share — increased 11.4% | .48 ^{3/4} | .43 ^{3/4} |
| Capital expenditures | 2,402,000 | 2,006,000 |
| Net worth per common share | 11.63 | 11.72 |
| Return on shareholders' equity (January 1) | 11.7% | 15.0% |

TO EMCO SHAREHOLDERS

The significant statistics relating to operations during your Company's 62nd year are set out below:

- Consolidated sales increased 2.8% over 1966 to \$74.3 million.
- Net earnings from operations decreased approximately 13% to \$1,721,110 for reasons which are outlined below.
- Earnings per common share for 1967 and the previous year are as follows:

| | 1967 | 1966 |
|---------------------------------|---------------|---------------|
| From operations | \$1.35 | \$1.56 |
| Gain on the sale of real estate | — | .15 |
| TOTAL | \$1.35 | \$1.71 |

Dividends paid on the common shares of the Company in 1967 amounted to 48½ cents per share compared to 43¾ cents per share in 1966. On March 12, 1968 the dividend on common shares was increased to an annual rate of 55 cents.

More comprehensive financial information will be found on page 14 of this report.

CANADA

In retrospect, 1967 was an economically unsatisfactory year for Canada where your Company has the major portion of its investment. Severe inflation continued unabated, accompanied by a reduction in the rate of real growth. The impact of substantial wage settlements in 1966, and management's resistance to continuation of the trend in 1967, created havoc in the construction trades, and many companies including your Company.

The four month strike experienced in our London plant between mid-May and mid-September reduced annual forecast production by some 40%. This reduction had a cumulative effect on our ability to supply our wholesale division requirements, as well as other outside customers, thus reducing

sales volume in some major branches. In addition, the drastic cut-back in Montreal construction — housing, commercial and industrial, and strikes in Toronto construction trades, all combined to reduce profit generated in Canada by 23%.

A conservative estimate of the cost of the London strike in terms of lost profit on sales, premium prices paid for normally manufactured items, and unabsorbed overhead, indicate that without the strike, the consolidated earnings for the year would have exceeded 1966 by approximately 10%.

The contract signed with Local 2699 United Steel Workers of America, and which terminated the strike, covers a period ending on June 30, 1970. It provides for progressive wage increases in five stages which will increase wage costs by 35% by that date.

WHOLESALE DIVISION

The Company's distribution network now has a total of 28 branch warehouses. A new branch was opened in Windsor, Ontario, in May, 1967. In September your Company acquired for cash Kawartha Plumbing and Heating Supplies Limited, a distributor with branches in Peterborough, Kingston and Belleville, Ontario.

In some of our branch operations, principally in the Maritimes and Western Canada, sales increased in non-manufactured product lines. Housing starts and completions have a direct bearing on activity in this division. Starts reached a level of 164,000, 22% higher than 1966, while completions dropped 8% to 149,000 units. Inability to supply the market due to the London strike, plus pressure of increased wage costs not wholly offset by increased selling prices, had a depressing effect on net profit. The reductions in consolidated earnings were confined to this division and the manufacturing division in Canada.

NEW PRODUCTS

Your Company is continuing to expand its plastics division and has substantially increased the number of items produced. Changes in plumbing codes in several major Provinces permit wider future use and acceptance of plastic plumbing. This trend is expected to continue in the future. Early in

1968 Emco will put on the market some items in chrome plated plastic fixture trim, which tests have indicated will be superior to many conventional plated metal products.

INTERNATIONAL

Emco's image to the many "publics" it is associated with continues to be related to "plumbing and heating" and therefore, by inference, wholly tied to construction in Canada. A more accurate description of our operations, interests and future objectives has much wider scope.

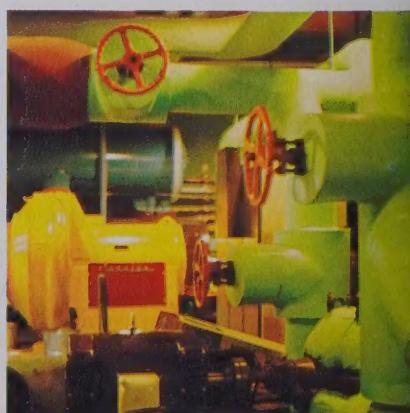
The Company believes its financial, technical, production and human resources are best employed in the design, development, production and marketing of products employed in the control and transfer of all types of liquids and gases. To this end, expansion of present facilities and acquisition of companies engaged in such activities continues to be an important corporate objective. The total efforts of our international subsidiaries are concerned with the production and marketing of engineered fluid handling equipment for the petroleum and petro-chemical industry, and a wide range of products used by other industries concerned with the bulk transportation of liquids.

UNITED STATES COMPANIES

A major step towards future growth was made in December 1967. Emco acquired all of the outstanding shares of Wheaton, Inc. of Union, New Jersey, for \$3.1 million U.S. This is the largest single acquisition in our history, in terms of money and future earnings potential. The Wheaton company has a long record of pre-eminence in engineered fluid handling equipment for the petroleum industry. Emco has been associated with Wheaton for over forty years as a licensee throughout various countries of the world. In 1965, Emco and Wheaton jointly purchased the Buckeye Iron & Brass Works of Dayton, Ohio, makers of a complementary line of equipment. As a result of the acquisition of Wheaton, Inc., Emco Wheaton, Inc. (successor to Buckeye) is now a wholly-owned subsidiary of Emco.



This is Emco...
pipe, valves and fittings for intricate industrial piping systems.



Integration of Wheaton, Buckeye, and existing international subsidiaries will present to our international customers in the petroleum and petro-chemical industries a co-ordinated, broad line of high quality, well-known engineered fluid handling products throughout the world.

In order to take advantage of the Wheaton name and reputation throughout the world, we propose to change the names of our international companies in 1968 to incorporate therein the name "Wheaton".

Increased sales at Buckeye Division, Emco Wheaton, Inc., Conneaut, Ohio turned the previous year's break-even situation into a reasonably profitable one.

UNITED KINGDOM

Sales and earnings of Emco's oldest and largest international subsidiary were maintained at a satisfactory level, approximately equal to the previous year.

The 14% sterling devaluation late in 1967 should improve this subsidiary's competitive position in world markets which account for a substantial portion of their sales. Increased costs of materials resulting from devaluation offsets the price advantage to some extent, but a net price reduction is being offered to some export customers.

Devaluation was anticipated by your Company with the result that it created a net increase in consolidated earnings.

WEST GERMANY

Emco GmbH produced a significant increase in sales and earnings. The potential markets of West Germany and the European Common Market look bright, and require additional plant capacity which is now under construction.

APAN

Many and varied problems confronted the new management of Emco Wheaton (Japan), limited which became effectively operative about mid-year. They have been handled with energy and ability under difficult circumstances, with the result that anticipated losses for the year are somewhat less than expected. We are satisfied that the Far East

market has excellent potential and can be effectively served from Japan. We are increasing our investment there to handle a sharply increased volume of orders.

AUSTRALIA

Combined results from the operations of Axiom Wheaton Pty. Limited and Oileco continue to be disappointing. Completion of a new plant in Sydney, operating and integration problems, a shortage of competent administrative and sales personnel, resulted in a small loss. Experienced Canadian personnel have been sent to Australia to assist in reversing this trend.

FRANCE

Emco Buckeye S.A. increased sales and earned a small profit on its operations. This company continues to perform assembly and distribution functions, obtaining its requirements from our U.K. and German companies.

BOARD OF DIRECTORS

Some considerable changes in your board have taken place since the last Annual Meeting. At the 1967 Annual General Meeting of Shareholders, Mr. F. W. P. Jones of London, Ontario was elected to fill the vacancy created by the retirement of Mr. P. A. Chester, F.C.A., of Winnipeg. Mr. Jones, former Dean of the School of Business Administration, University of Western Ontario, and presently on its faculty, and a Director of a number of prominent Canadian and American companies, is an important and valuable addition to your board.

Messrs. R. G. Ivey, Q.C., D. B. Weldon of London, (Directors since 1946) and E. J. Chambers, Q.C. of Calgary (Director since 1954) retired as Directors of the Company early in January 1968. Emco has grown and prospered greatly in the years in which these gentlemen have been Directors. Their interest in, and devotion to the affairs of the Company have played a significant part in our progress and is gratefully acknowledged by all Officers and Directors.

To fill the vacancies, the board made three appointments until the 1968 Annual General

Meeting of Shareholders, at which time they will be nominated for election:

- Mr. W. H. Evans of Toronto, Director and former Chairman of Honeywell Controls Ltd., Past President of Canadian Manufacturers Association, and Honorary President of the Canadian National Exhibition, is, in the opinion of your board, an excellent addition and will actively contribute to Emco's welfare.

- Messrs. R. F. Wheaton and W. J. Schultz of Short Hills, New Jersey, U.S.A., are respectively Chairman and President of Wheaton, Inc., now an Emco subsidiary. Their experience in the U.S.A. market for our products will prove invaluable in the future.

THE YEAR AHEAD

Sales volume in the first two months of 1968 is up 10% over the similar period of 1967. Our international companies have obtained several large orders which should assure a busy year.

In Canada, it is expected residential construction activity will accelerate during the year, boosting housing starts to a new annual high of 175,000 units, with big gains expected in apartment starts.

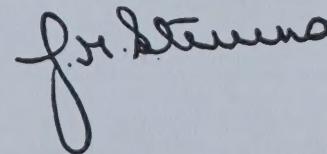
Your Company is in an ideal position to capitalize on this growing market.

GENERAL

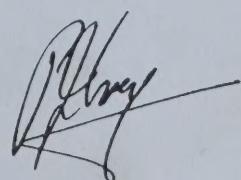
Shareholders will be asked at the forthcoming Annual Meeting to approve a Share Purchase Plan for employees of Emco and its subsidiaries other than officers and directors. Your Directors feel that it is desirable to provide full time employees with an opportunity to participate in the Company's growth and success in a very tangible way. Particulars of the proposal are enclosed with this report.

The past year, 1967, was both a difficult and active year for your Company. Despite the problems encountered, considerable progress was made toward the improvement of future results. Employees in seven countries, customers and suppliers of goods and services throughout the world each contributed to our fortunes in 1967. On behalf of the Directors we express sincere thanks.

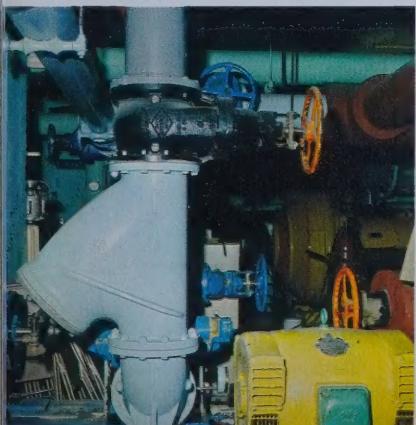
On behalf of the Board of Directors



Chairman



President



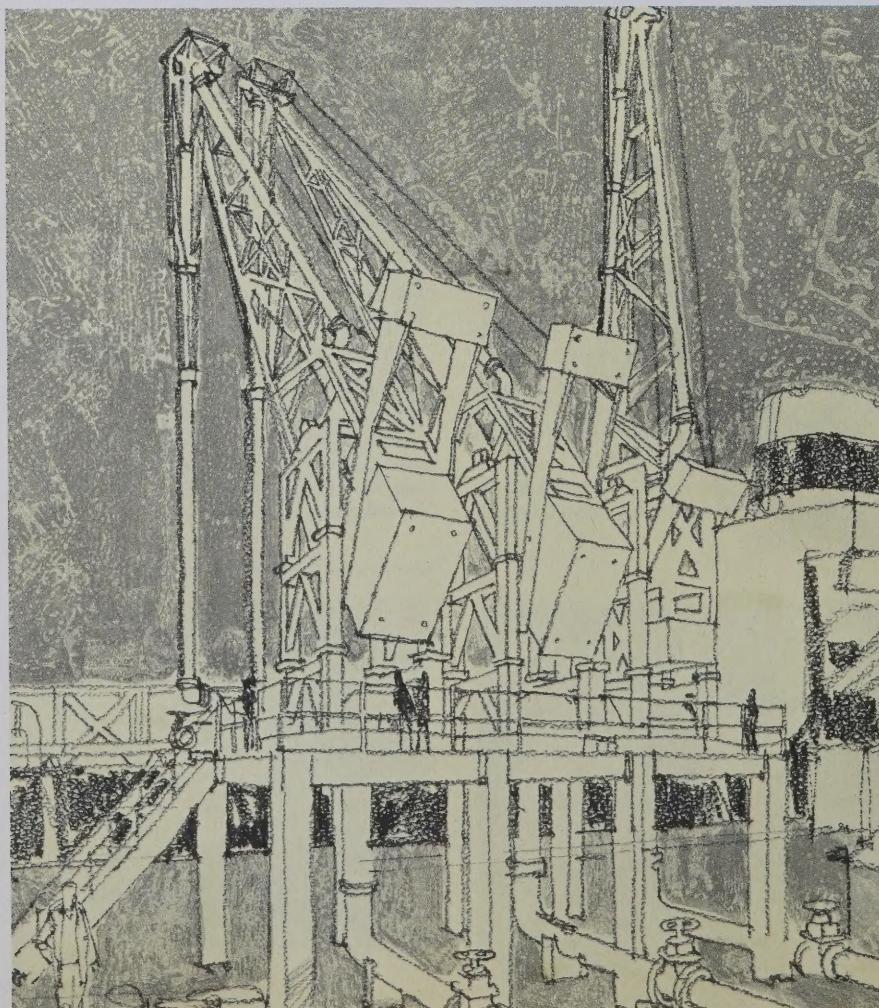


This is Emco...
plastic fittings for use in drainage systems.

INTERNATIONAL OPERATIONS



A bank of three 16" diameter B.3000 marine loading arms.



Internationally, Emco manufactures fluid handling equipment for the control and transfer of all types of liquids and gases and markets a wide range of products to over 100 countries.

To ensure that Emco products continually improve in quality and performance, the company maintains close to its British plant a comprehensive research and development group which undertakes review, testing and developing of new products. Projects under consideration involve investigation of sealing problems, loader and related equipment design for the petroleum industry. In addition, the group is equipped to perform experimental work on plastics and other new materials intended for use under varying conditions.

UNITED KINGDOM

Emco Margate has completed the design and development of 16" marine loaders to enable fast economical handling of to-day's giant tankers. Marine loaders manufactured by Emco are counter balanced and hydraulically powered. They respond readily to every movement of the ship, guaranteeing safe loading or unloading under all conditions.

GERMANY

The major contribution of Emco G.m.b.H. at Kirchhain, Germany involves the patented Emco Dry Break Coupler. This coupler permits the separation or rejoining of pressure lines without product loss. The most modern manufacturing equipment has been installed in the plant to produce this item efficiently.

AUSTRALIA

A complete range of Emco oil equipment is now being manufactured in two locations to serve the growing Australian market. The head office and a factory are located at Sydney and a second plant is situated at Melbourne, Victoria.

JAPAN

Emco Wheaton Limited of Japan, acquired in 1966 continues to expand in this growing Asiatic market.

EMCO LIMITED

PRINCIPAL DIVISIONS AND SUBSIDIARIES

Indicating senior operating executive and percentage of Emco ownership.

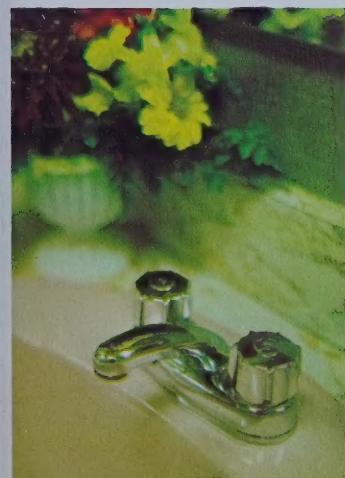
CANADA

EMCO LIMITED

| | |
|---|------|
| LONDON FACTORY DIVISION, London, Ontario (Stuart F. Smith, Vice-President) Manufacturer of plumbing, heating and industrial piping products for sale to wholesalers. | 100% |
| WHOLESALE DIVISION (Including Emco Kawartha Limited), Weston, Ontario, 28 Branches across Canada (Ralph S. MacLean, Vice-President) Distributors of plumbing, heating and industrial piping supplies to mechanical contractors and industry. | 100% |
| PLASTICS DIVISION, Brampton, Ontario (Earl F. Lince, Manager) Manufacturer of plastic plumbing and piping components. | 100% |
| GAS DIVISION, Weston, Ontario (John B. Kerr, General Manager) Distributor of specialty products for the natural and propane gas industries. | 100% |
| CANADIAN CLYDE TUBE FORGINGS LIMITED, Etobicoke, Ontario (Eldon T. McLeod, General Manager) Distributor of steel welding fittings for industry. | 100% |
| EMCO-WHEATON LIMITED, Etobicoke, Ontario (Richard E. Krengel, General Manager) Manufacturer and distributor of fluid handling equipment for the petroleum and petro-chemical industries. | 100% |

INTERNATIONAL

| | |
|--|------|
| WHEATON, INC., Union, New Jersey, U.S.A. (Robert F. Wheaton, Chairman & W. Jackson Schultz, President) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in the U.S.A. | 100% |
| BUCKEYE DIVISION - Emco Wheaton, Inc., Conneaut, Ohio, U.S.A. (James H. Wilson, Vice-President & General Manager) Manufacturer and distributor of specialty equipment for the petroleum industry in the U.S.A. | 100% |
| EMCO G.m.b.H., Kirchhain, Germany (F. Pitton, General Manager) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Western Europe. | 76% |
| EMCO BRASS MFG. CO. LIMITED, Margate, England (John G. Beresford, Managing Director) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in the United Kingdom and for agents throughout the world. | 100% |
| EMCO BUCKEYE S.A., Paris, France (S. Foliquet, Manager) Distributor of fluid handling equipment for the petroleum and petro-chemical industries in France. | 85% |
| EMCO WHEATON (JAPAN), LIMITED, Tokyo, Japan (Vernon E. Vinen, Vice-President) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Japan and the Far East. | 80% |
| OIL INDUSTRY EQUIPMENT PTY. LIMITED, Sydney, Australia (Rex J. Sargeant, Managing Director) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Australia. | 79% |
| AXIOM-WHEATON PTY. LTD., Melbourne, Australia (William Sloane, Manager) Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Australia. | 100% |
| RESEARCH and DEVELOPMENT GROUP, Margate, England (Dr. Keith Upton, General Manager) Tests and reviews existing products and develops new products for Emco's petroleum and petro-chemical manufacturing subsidiaries. | 100% |



This is Emco...
lavatory fixture trim that lends a touch of elegance to your bathroom.

EMCO LIMITED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED EARNINGS AND CONSOLIDATED RETAINED EARNINGS

Year ended December 31, 1967 (with comparative figures for 1966)

| | 1967 | 1966 |
|--|---------------------|-------------------|
| CONSOLIDATED EARNINGS | | |
| Sales, less sales taxes | <u>\$74,324,738</u> | <u>72,330,724</u> |
| Operating profit after minority shareholders' interest but before the undernoted items | 4,737,953 | 5,369,907 |
| Net gain on sterling devaluation | 84,137 | — |
| Income from marketable securities | 28,899 | 28,095 |
| | <u>4,850,989</u> | <u>5,398,002</u> |
| Deduct: | | |
| Depreciation | 785,059 | 733,917 |
| Interest on bank and other short-term advances | 208,634 | 168,171 |
| Interest on long-term debt | 479,186 | 506,048 |
| | <u>1,472,879</u> | <u>1,408,136</u> |
| Earnings before taxes on income | 3,378,110 | 3,989,866 |
| Taxes on income | 1,657,000 | 2,017,000 |
| | <u>\$ 1,721,110</u> | <u>1,972,866</u> |
| Net earnings for the year | <u>\$ 1.35</u> | <u>1.56</u> |
| Net earnings per common share, based on shares outstanding at December 31 and after preference dividends | | |
| CONSOLIDATED RETAINED EARNINGS | | |
| Amount at beginning of year | <u>\$14,186,016</u> | <u>12,619,347</u> |
| Add: | | |
| Net earnings for the year | 1,721,110 | 1,972,866 |
| Gain on sale of real estate | — | 191,866 |
| | <u>1,721,110</u> | <u>2,164,732</u> |
| | <u>15,907,126</u> | <u>14,784,079</u> |
| Deduct: | | |
| Dividends: | | |
| Second Preference | 34,704 | 44,537 |
| Common | 623,381 | 553,526 |
| Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets – Note (2) | 1,115,180 | — |
| | <u>1,773,265</u> | <u>598,063</u> |
| Amount at end of year | <u>\$14,133,861</u> | <u>14,186,016</u> |

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
 Year ended December 31, 1967 (with comparative figures for 1966)

| FUNDS PROVIDED: | 1967 | <u>1966</u> |
|--|---------------------|-------------------|
| Net earnings for the year | \$ 1,721,110 | 1,972,866 |
| Add depreciation not requiring cash expenditure | 785,059 | 733,917 |
| Funds provided from operations | 2,506,169 | 2,706,783 |
| Proceeds from the sale of real estate | | 294,435 |
| Issue of common shares | 88,072 | 87,182 |
| Long-term debt, acquired companies | 3,866,932 | — |
| Total funds provided | <u>6,363,203</u> | <u>3,088,400</u> |
| FUNDS USED: | | |
| Fixed asset additions, net, including fixed assets of acquired companies | 2,402,259 | 2,006,021 |
| Reduction in long-term debt | 947,743 | 561,395 |
| Redemption of second preference shares | 357,090 | 298,460 |
| Dividends on second preference shares | 34,704 | 44,537 |
| Dividends on common shares | 623,381 | 553,526 |
| Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets | (11,111) | — |
| Decrease (increase) in minority interest in subsidiary companies .. | 370,894 | (69,232) |
| Increase (decrease) in investments and long-term receivables | (7,135) | |
| Total funds used | <u>3,387,572</u> | |
| Increase (decrease) in working capital | <u>(299,172)</u> | |
| WORKING CAPITAL AT END OF YEAR | \$18,476,204 | 17,953,769 |

See accompanying notes to financial statements.

EMCO LIMITED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED EARNINGS AND CONSOLIDATED RETAINED EARNINGS

Year ended December 31, 1967 (with comparative figures for 1966)

| | 1967 | 1966 |
|--|---------------------|-------------------|
| CONSOLIDATED EARNINGS | | |
| Sales, less sales taxes | <u>\$74,324,738</u> | <u>72,330,724</u> |
| Operating profit after minority shareholders' interest but before the undernoted items | 4,737,953 | 5,369,907 |
| Net gain on sterling devaluation | 84,137 | — |
| Income from marketable securities | 28,899 | 28,095 |
| | <u>4,850,989</u> | <u>5,398,002</u> |
| Deduct: | | |
| Depreciation | 785,059 | 733,917 |
| Interest on bank and other short-term advances | 208,634 | 168,171 |
| Interest on long-term debt | 479,186 | 506,048 |
| | <u>1,472,879</u> | <u>1,408,136</u> |
| Earnings before taxes on income | 3,378,110 | 3,989,866 |
| Taxes on income | 1,657,000 | 2,017,000 |
| | <u>\$ 1,721,110</u> | <u>1,972,866</u> |
| Net earnings for the year | <u>\$ 1.35</u> | <u>1.56</u> |
| Net earnings per common share, based on shares outstanding at December 31 and after preference dividends | | |
| CONSOLIDATED RETAINED EARNINGS | | |
| Amount at beginning of year | <u>\$14,186,016</u> | <u>12,619,347</u> |
| Add: | | |
| Net earnings for the year | 1,721,110 | 1,972,866 |
| Gain on sale of real estate | — | 191,866 |
| | <u>1,721,110</u> | <u>2,164,732</u> |
| | <u>15,907,126</u> | <u>14,784,079</u> |
| Deduct: | | |
| Dividends: | | |
| Second Preference | 34,704 | 44,537 |
| Common | 623,381 | 553,526 |
| Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets – Note (2) | 1,115,180 | — |
| | <u>1,773,265</u> | <u>598,063</u> |
| Amount at end of year | <u>\$14,133,861</u> | <u>14,186,016</u> |

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1967

(with comparative figures for 1966)

ASSETS

| CURRENT ASSETS: | 1967 | 1966 |
|---|---------------------|-------------------|
| Cash | \$ 1,066,487 | 398,294 |
| Marketable securities, at cost (quoted value 1967 \$739,006; 1966 \$923,613) | 743,440 | 921,800 |
| Trade accounts receivable, less allowance for doubtful accounts (1967 \$464,290; 1966 \$606,478) | 10,745,940 | 9,364,806 |
| Inventories at the lower of cost or net realizable value | 18,890,396 | 17,641,312 |
| Prepaid expenses | 358,661 | 375,404 |
| Total current assets | <u>31,804,924</u> | <u>28,701,616</u> |
| INVESTMENT IN SHARES OF OTHER COMPANIES, AT COST, AND LONG-TERM RECEIVABLES | 344,429 | 256,942 |
| FIXED ASSETS, AT COST, LESS DEPRECIATION – Note (5) | 8,206,051 | 6,588,851 |
| | <u>\$40,355,404</u> | <u>35,547,409</u> |

LIABILITIES

| CURRENT LIABILITIES: | 1967 | 1966 |
|--|---------------------|-------------------|
| Due to banks | \$ 2,517,294 | 3,925,486 |
| Notes payable | — | 108,300 |
| Accounts payable and accrued expenses | 5,727,479 | 4,453,710 |
| Amount payable on acquisition of subsidiary – Note (2) ... | 2,511,000 | — |
| Dividends payable | 170,599 | 158,993 |
| Current portion of long-term debt | 674,863 | 113,605 |
| Income and other taxes payable | 1,727,485 | 1,987,753 |
| Total current liabilities | <u>13,328,720</u> | <u>10,747,847</u> |
| LONG-TERM DEBT – Note (3) | 11,435,369 | 8,516,180 |
| MINORITY INTEREST IN SUBSIDIARY COMPANIES | 105,361 | 476,255 |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock – Note (4) | 1,352,093 | 1,621,111 |
| Retained earnings | 14,133,861 | 14,186,016 |
| Total shareholders' equity | <u>15,485,954</u> | <u>15,807,127</u> |
| | <u>\$40,355,404</u> | <u>35,547,409</u> |

See accompanying notes to financial statements.

Approved on behalf of the Board: P. J. IVEY, Director; J. W. ADAMS, Director

**Notes to
Financial Statements
December 31, 1967**

1. The accounts of the company's foreign subsidiaries have been converted to Canadian dollars as follows: current assets, current liabilities and long-term debt – at rates current at the year end; fixed assets – at rates current on dates of acquisition; accumulated depreciation and related provisions against income – on the basis of dollar value of related assets; and operating income and other expenses – at average rates for the year.

2. The following acquisitions were made during the year for cash (including \$2,511,000 paid January 3, 1968) for the proportion of the outstanding shares of the acquired companies as indicated below:

| | |
|---|------|
| Wheaton, Inc., Union, New Jersey, U.S.A. | 100% |
| Oil Industry Equipment Pty. Limited, Sydney, Australia | 79% |
| Kawartha Plumbing & Heating Supplies Limited, Peterborough, Ontario | 100% |

Prior to acquisition on December 13, 1967, Wheaton, Inc. owned 49% and Emco Limited owned 51% of the outstanding shares of Emco Wheaton, Inc., Conneaut, Ohio, U.S.A. Wheaton, Inc. and Emco Limited each own 50% of the outstanding shares of Buckeye Realty Corporation. As a result of the acquisition of Wheaton, Inc., Emco Wheaton, Inc. and Buckeye Realty Corporation became, in effect, wholly-owned subsidiaries of Emco Limited.

In addition, the minority shareholders' interest in Axiom-Wheaton Pty. Limited, Melbourne, Australia was acquired during the year for cash, making this company a wholly-owned subsidiary of Emco Limited.

The amount by which the purchase price on the acquisition of the shares of these companies exceeded the value of the underlying net tangible assets acquired has been written off to consolidated retained earnings in the amount of \$1,115,180.

3. The particulars of the long-term indebtedness are as follows:

| EMCO LIMITED: | <u>1967</u> | <u>1966</u> |
|--|---------------------|------------------|
| 5 1/4 % sinking fund debentures, due October 15, 1973 | \$ 2,279,500 | 2,361,000 |
| 5 3/4 % sinking fund debentures, due June 15, 1985 | 5,467,000 | 5,700,000 |
| 5 1/2 % mortgage payable, due August 1, 1967 | — | 5,625 |
| UNITED STATES SUBSIDIARIES: | | |
| 6 3/4 % note payable, due December 1, 1969 (\$3,100,000 U.S.) | 3,348,000 | — |
| 6% mortgage note payable in monthly instalments of principal and interest, \$3,583 U.S. | 518,932 | — |
| 6 3/4 % note payable in monthly instalments of \$5,000 U.S., due July 2, 1968 | 496,800 | 563,160 |
| Less amounts due within one year included with current liabilities | 12,110,232 | 8,629,785 |
| | 674,863 | 113,605 |
| | <u>\$11,435,369</u> | <u>8,516,180</u> |

At December 31, 1967 all of the sinking fund obligations for the debentures to that date had been met and the principal amount of debentures tendered to the trustee in respect of sinking fund requirements for 1968 to 1971 are as follows:

| | 5 1/4 % Debentures | 5 3/4 % Debentures |
|--|--------------------|--------------------|
| Principal amount tendered to the trustee | <u>\$ 38,500</u> | <u>414,000</u> |
| Sinking fund requirements | | |
| 1968 | \$202,000 | 126,000 |
| 1969 | 213,000 | 133,000 |
| 1970 | 223,000 | 141,000 |
| 1971 | 234,000 | 149,000 |

4. Capital stock:

(a) Under date of April 28, 1967, supplementary letters patent were obtained reclassifying the 3% cumulative redeemable preference shares into 3% cumulative redeemable second preference shares and increasing the authorized capital by creating 150,000 first

preference shares with a par value of \$100 each, issuable in series.

The authorized and issued capital at December 31, 1967 is as follows:

| | Number of Shares <u>Authorized</u> | <u>Issued</u> |
|---|---------------------------------------|------------------|
| First preference shares with a par value of \$100 each | 150,000 | — |
| 3% cumulative redeemable second preference shares with a par value of \$10 each | 159,424 | 97,824 |
| Common shares without nominal or par value | 2,200,000 | 1,247,400 |
| The outstanding share capital is as follows: | | |
| | <u>1967</u> | <u>1966</u> |
| First preference shares | — | — |
| 3% second preference shares | \$ 978,240 | 1,335,330 |
| Common shares | 373,853 | 285,780 |
| | <u>\$1,352,093</u> | <u>1,621,110</u> |

(b) The provisions with respect to the 3% cumulative redeemable second preference shares include a requirement that the company shall apply to the redemption of preference shares before July 1 in each year, a sum equal to 25% of the consolidated net earnings of the company (as defined in such provisions) in excess of \$500,000 for the immediately preceding fiscal year of the company after deducting from the said consolidated net earnings dividend for such fiscal year on the preference shares.

Pursuant to this requirement 35,700 preference shares were redeemed at par in 1967, an aggregate amount of \$357,090 to satisfy the 1966 requirement. To satisfy the 1967 requirement \$296,601 must be applied to the redemption of preference shares on or before July 1, 1968.

(c) A share option plan was established in 1960 for certain executives whereby 60,000 of the company's authorized and unissued common shares were reserved for issue under the plan. Since the inception of the plan, options have been granted for 49,900 shares including a

option for 2,500 shares at \$16.50 per share during 1967 and 47,400 shares have been taken up and issued under the plan, including 12,185 shares during 1967 for a cash consideration of \$88,072. The option for 2,500 shares may be exercised at any time prior to October 31, 1972 at a price of \$16.50 per share.

In addition, 15,000 authorized and unissued common shares have been reserved for issue at \$16.50 per share at any time prior to December 31, 1972 for share options granted during 1967 to certain officers of Wheaton, Inc.

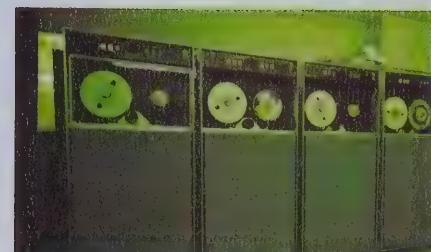
(d) The trust deeds relating to the debentures both contain provisions whereby dividends may not be declared or paid, other than stock dividends or cumulative preference dividends, and the company may not effect any reduction to its capital stock which would reduce consolidated net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1967, the consolidated net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.

5. The details of fixed assets, at cost, less depreciation at December 31, are as follows:

| | 1967 | 1966 |
|-------------------------------------|---------------------|-------------------|
| Buildings and roadways | \$ 7,778,801 | 6,285,638 |
| Machinery and equipment | 6,614,754 | 5,342,265 |
| | <u>14,393,555</u> | <u>11,627,903</u> |
| Less accumulated depreciation | 6,972,165 | 5,681,064 |
| | <u>7,421,390</u> | <u>5,946,839</u> |
| Land | 784,661 | 642,012 |
| Fixed assets, less depreciation ... | <u>\$ 8,206,051</u> | <u>6,588,851</u> |

6. The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers was \$296,929 for the year ended December 31, 1967.

7. Pension costs are charged against earnings in the year of payment. Past service costs are being funded over a period of years and the total unfunded liability at December 31, 1967 was approximately \$75,000.



*This is Emco . . .
Head Office computer provides a fully integrated management reporting program.*



Auditors' Report To The Shareholders

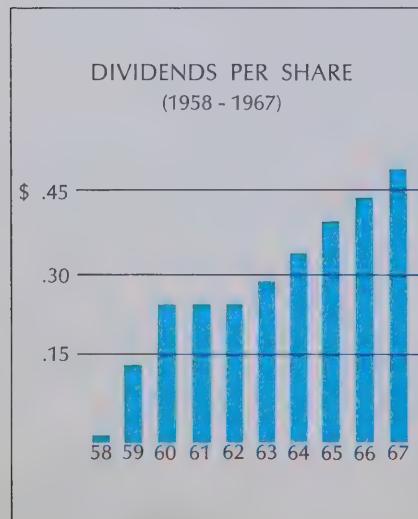
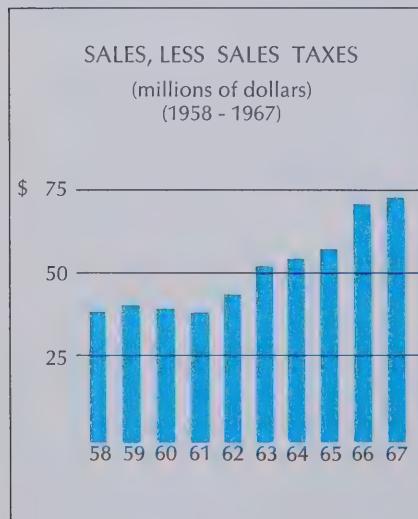
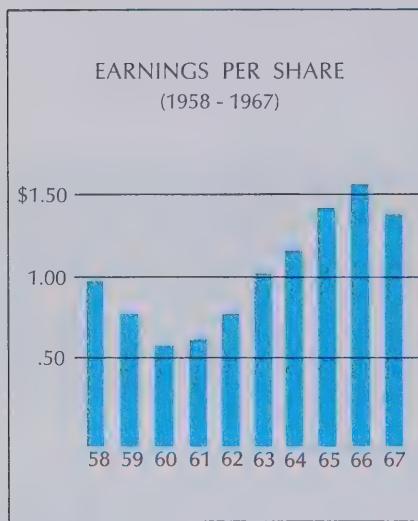
We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1967 and the consolidated statements of earnings and retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada,
February 26, 1968.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

TEN YEAR FINANCIAL SUMMARY



SALES, LESS SALES TAXES
SOURCE AND APPLICATION
OF FUNDS

FUNDS PROVIDED

Net earnings
Depreciation charged
Cash earnings
Proceeds from sale of real estate
Issue of common shares
Minority interests
Issue of 5 3/4 % debentures
Note payable
Long-term debt, acquired companies

FUNDS USED

Capital expenditures — net
Redemption of second
preference shares
Dividends — second preference

— common
Reduction in long-term debt
Investment in other companies
Excess of purchase price of subsidiary
companies acquired during the year
over value of underlying net tangible
assets
Other — net

Increase (decrease) in working capital

COMMON SHARE RESULTS

Net earnings per share
Gain on sale of real estate
Total earnings per share outstanding
at December 31

Dividends paid per share
Net worth at December 31
Return on common shareholders'
equity at beginning of the year

CONDENSED BALANCE SHEET

Current assets
Current liabilities
Working capital
Investments and long term receivables

Fixed assets — net

Long-term debt
Minority interests
Second preference share capital

Common share capital

Retained earnings

| 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|--|--|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| \$74,325 | 72,331 | 60,692 | 54,280 | 50,988 | 42,664 | 36,890 | 38,877 | 40,329 | 37,261 |
| | | | | | | | | | |
| \$ 1,721 785 | 1,973 734 | 1,746 657 | 1,494 605 | 1,304 545 | 940 495 | 781 468 | 767 459 | 906 472 | 1,099 398 |
| 2,506 | 2,707 | 2,403 | 2,099 | 1,849 | 1,435 | 1,249 | 1,226 | 1,378 | 1,497 |
| — | 295 | 287 | 200 | — | 567 | — | 738 | — | — |
| 88 | 87 | 29 | 15 | 53 | — | 2 | — | — | — |
| (371) | 69 | 363 | 16 | (5) | 23 | 10 | — | — | — |
| — | — | 6,000 | — | — | — | — | — | — | — |
| — | — | 561 | — | — | — | — | — | — | — |
| 3,867 | — | — | — | — | — | — | — | — | — |
| 6,090 | 3,158 | 9,643 | 2,330 | 1,897 | 2,025 | 1,261 | 1,964 | 1,378 | 1,497 |
| | | | | | | | | | |
| 2,402 | 2,006 | 778 | 1,277 | 745 | 738 | 855 | 780 | 1,138 | 516 |
| 357 | 298 | 234 | 185 | 94 | 54 | 50 | 94 | — | 420 |
| 35 | 45 | 53 | 59 | 63 | 65 | 67 | 69 | 35 | — |
| 623 | 554 | 488 | 425 | 362 | 300 | 300 | 225 | 225 | 15 |
| 948 | 561 | 184 | 220 | 113 | 166 | 30 | 3 | 400 | 130 |
| (54) | (84) | (72) | 4 | 192 | 44 | — | — | — | — |
| | | | | | | | | | |
| 1,115 142 | — 77 | — (67) | — 95 | — (19) | — 107 | — 19 | — (29) | — 21 | — 74 |
| 5,568 | 3,457 | 1,598 | 2,265 | 1,550 | 1,474 | 1,321 | 1,142 | 1,819 | 1,155 |
| \$ 522 | (299) | 8,045 | 65 | 347 | 551 | (60) | 822 | (441) | 342 |
| | | | | | | | | | |
| \$ 1.35 | 1.56 | 1.39 | 1.18 | 1.02 | .73 | .60 | .58 | .73 | .92 |
| — | .15 | .08 | .13 | — | .09 | — | .16 | — | — |
| | | | | | | | | | |
| \$ 1.35 | 1.71 | 1.47 | 1.31 | 1.02 | .82 | .60 | .74 | .73 | .92 |
| \$.48¾ 11.63 | .43¾ 11.72 | .38¾ 10.50 | .33¾ 9.51 | .28¾ 8.56 | .25 | .25 | .25 | .12½ 6.39 | .01¼ 5.94 |
| % 11.7 | 15.0 | 14.6 | 13.8 | 13.1 | 10.0 | 8.6 | 9.1 | 12.2 | 13.9 |
| | | | | | | | | | |
| \$31,805 13,329 | 28,702 10,748 | 26,335 8,082 | 20,428 10,220 | 18,925 8,782 | 16,925 7,129 | 14,835 5,590 | 13,141 3,836 | 13,585 5,102 | 13,324 4,400 |
| 18,476 344 8,206 | 17,954 257 6,589 | 18,253 264 5,419 | 10,208 488 5,481 | 10,143 405 4,849 | 9,796 220 4,685 | 9,245 118 4,868 | 9,305 105 4,481 | 8,483 127 4,704 | 8,924 121 4,038 |
| \$27,026 | 24,800 | 23,936 | 16,177 | 15,397 | 14,701 | 14,231 | 13,891 | 13,314 | 13,083 |
| \$11,435 105 978 374 14,134 | 8,516 477 1,335 286 14,186 | 9,077 407 1,634 199 12,619 | 2,708 44 1,868 169 11,388 | 2,943 28 2,053 155 10,218 | 3,081 33 2,147 102 9,338 | 3,261 10 2,200 102 8,658 | 3,297 — 2,250 100 8,244 | 3,293 — 2,344 100 7,577 | 3,694 — 2,260 100 7,029 |
| \$27,026 | 24,800 | 23,936 | 16,177 | 15,397 | 14,701 | 14,231 | 13,891 | 13,314 | 13,083 |

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common Share Results.

FINANCIAL REVIEW

SALES, EARNINGS AND CASH FLOW

Consolidated sales reached a record high of \$74.3 million, an increase of 2.8% over 1966. Sales in Canada were equal to those of 1966 and sales of our international subsidiaries increased by 24%.

Earnings after taxes on income were as follows:

| | Canada | International |
|-------------------------------------|-------------|---------------|
| 1967 | \$1,262,595 | 458,515 |
| Percent of total | 73 % | 27 % |
| 1966 | 1,633,497 | 339,369 |
| Percent of total | 83 % | 17 % |
| 1967 Increased (Decreased) | (23) % | 35 % |

Net earnings per common share were \$1.35 compared to \$1.56 in 1966. This represents the third highest profit in the Company's history. A four month strike in our London factory seriously affected

Canadian earnings, interrupting our record of continuous annual profit improvement since 1960. We are satisfied that, had the strike been avoided, earnings in 1967 would have been at record levels.

Cash flow per common share was \$1.98 per share compared to \$2.31 per share in 1966.

Our wholesale division in Canada experienced strong competition in several major markets, reducing gross profits on sales. In 1967, as in 1966, this division finished the year with an excellent credit performance so that bad debt write-offs, less recoveries, were negligible.

In our international operations, net earnings increased by 35%. Profits of our European and U.S. companies were at record levels. The Australian subsidiaries improved their performance, although a small loss was incurred. In Japan, a small loss was also incurred. Our U.K. position was fully hedged on the devaluation of the pound and in addition, a gain on devaluation of \$84,137 was realized.

ACQUISITIONS DURING YEAR

The enclosed financial statements include the accounts of acquisitions made during the year. In accordance with our usual practice, only earnings since acquisition have been included in consolidated earnings. Three new subsidiaries were acquired - Oil Industry Equipment Pty. Limited of Sydney, Australia, Kawartha Plumbing and Heating Supplies Limited of Peterborough, Ontario and Wheaton, Inc. of Union, New Jersey for a total cash consideration of \$3.9 million. As the largest acquisition, Wheaton, Inc., took place on December 13, 1967 there was no appreciable increase in consolidated earnings in 1967 attributable to this acquisition.

In order to finance the acquisition of Wheaton, Inc. on December 13, 1967, a bank loan of \$3.1 million U.S. was obtained which is to be repaid within two years. Long term borrowing to repay this loan will be arranged when money market conditions appear favourable.

DIVIDENDS

The cash dividend on common shares was increased to an annual rate of 50 cents in March, 1967. On March 12, 1968 the rate was increased to 55 cents per share, an increase of 10%. Cash dividends on the common shares have been increased each year since 1963.

WORKING CAPITAL, RECEIVABLES, AND INVENTORIES

Working capital increased by \$522,435 and was \$18.5 million at year end. The working capital ratio stood at 2.4:1 compared to a ratio of 2.7:1 at the end of 1966.

Accounts receivable, after deducting an allowance for doubtful accounts of \$464,290 were \$10.7 million compared to \$9.4 million at the end of 1966. The allowance for doubtful accounts (calculated on a formula related to the age of the accounts) has been provided on a basis consistent with the practice of previous years. Our collection performance was better than the industry average in 1967.

Consolidated inventories increased by \$1.3 million to \$18.9 million. The increase in inventories results mainly from the consolidation for the first time of newly acquired companies. As in previous years, full provision has been made for slow moving and obsolete items.

CAPITAL EXPENDITURES, DEPRECIATION AND TOOLING

During the year, capital expenditures amounted to \$2.4 million which included \$1.4 million representing the net book value of fixed assets of subsidiaries acquired during 1967.

Depreciation of fixed assets charged to operations in 1967 was \$785,059 (1966 - \$733,917). Generally speaking, depreciation was provided on a straight line basis at the rate of 10% of the original cost of machinery and equipment and 5% for buildings.

For most divisions and subsidiaries, tools, dies, patterns and moulds are written off in the year of acquisition.

This is Emco . . .
fully automatic service station nozzles.





This is Emco . . .
a wide range of equipment is supplied to
the gas industry.



EMCO BUYS WHEATON

The single, most important event in the expansion of Emco Limited since its founding in 1906 took place in 1967 – the purchase of Wheaton, Inc. of Union, New Jersey. The Wheaton purchase is the culmination of a 40 year association which began in 1927.

Since then, Emco Limited, through an exclusive license arrangement, has been producing and distributing Emco-Wheaton fluid handling equipment from its London factory for sale in

Canada and countries which originally formed the British Commonwealth. Facilities for the manufacture of Emco-Wheaton equipment were established by Emco in England (1949), Germany (1957), Australia (1963), France and Japan (1966).

The Wheaton purchase will put a fully integrated and co-ordinated world-wide manufacturing and marketing group in a position to serve the market for engineered fluid handling equipment.

Established in 1892, Wheaton, Inc., moved in 1951 from its original home in Newark, New Jersey, to a new, well

equipped 50,000 sq. ft. plant in Union, New Jersey (25 miles west of New York City). Several other companies around the world represent and/or manufacture Wheaton products under licensee arrangements.

Emco Wheaton's Buckeye Division in Conneaut, Ohio (formerly 51% owned by Emco Limited) is now wholly owned by the company.

The Wheaton acquisition offers great opportunity in terms of earnings and increased sales for the future. It is particularly timely in view of developing competition both locally and abroad.





*This is Emco . . .
fluid handling equipment to load and unload oil
and petro-chemicals between ship and shore.*

EMCO WHOLESALE DIVISION

KAWARTHA PURCHASE

The latest in a series of acquisitions in a continuing effort to increase and update wholesale product outlets in Canada, is reflected by the recent purchase of Kawartha Plumbing and Heating Supplies of Peterborough, Ontario.

Two other operating branches were included in the transaction – one in Belleville and another in Kingston. The Belleville Sub-branch will continue to be operated from Peterborough, while the Kingston outlet will function as an independent Emco branch.

The 15,000 sq. ft. Emco Kawartha warehouse at Peterborough stocks a complete line of plumbing and heating equipment, industrial pipe, valves and fittings.

As a result of this acquisition, the total wholesale branch outlets now number twenty-eight across Canada.

NEW BRANCH OPENED IN WINDSOR

The Windsor, Ontario Branch was established this year with the opening of a 10,000 sq. ft. warehouse. The new wholesale outlet offers an additional 15,000 sq. ft. of outdoor storage facilities. The branch, which presently employs a staff of ten, began operation, in July of 1967 with a complete inventory of plumbing and heating materials for



ON THE MOVE

the heating and mechanical trades, industry, and drainage contractors.

INCREASED OPERATING FACILITIES

Emco continues to renovate and relocate existing wholesale operations to meet growing area demands for plumbing and heating equipment.

Warehousing facilities have been doubled at the Kitchener, St. Catharines and Saskatoon Branches.

The Halifax Branch operation has been made more effective through the leasing of additional property for storage of pipe and other stock.

Emco's Heating Division, formerly located in Guelph, has been transferred to larger facilities in Toronto. Continued upgrading of heating personnel has led to a high degree of technical competence and increased Branch heating equipment sales.



NEW PRODUCTS



This is Emco . . .
welding fittings for industry.



UNI-LINE

Emco's latest in fixture trim, Uni-Line, was designed to fill an existing need for a high-quality premium faucet. The unique advantage Uni-Line offers to the consumer is the ability to control both water flow and temperature with the movement of a single lever — "the one-handed way to make water obey." All major components of Uni-Line fixture trim are made of brass, with a stainless steel cap and specially-formulated rubber seals.



BALL VALVE

Another new product introduced in 1967 was the Emco Century Ball Valve. Designed for waterworks and similar applications, this valve features a Teflon-coated ball to reduce friction in working parts.

PLASTIC FITTINGS

Emco's Plastics Division in Brampton, Ontario continues to grow with the rapid acceptance of plastic pipe and fittings by the home owner, the plumber and industry.

Marketed throughout Canada under the Perm-O-Seal Brand name, Emco plastic Drain, Waste and Vent fittings offer an economy and ease of installation, strength and durability that complements Emco's traditional plumbing materials.

The establishment of the Plastics Division in 1966 recognizes the growing impact of plastic products on the plumbing industry and the desire of Emco to continue to lead and develop this potential.





*This is Emco . . .
prompt and reliable customer service.*



**FOR
EVERYTHING
THAT FLOWS**

In Australia an ocean-going tanker unloads its cargo of middle-east crude oil; in mid-west Canada a worker turns a valve and natural gas starts its long flow to industries and homes; in the United States a motorist has his car's gas-tank filled; in countless homes housewives turn on the tap of their kitchen sinks.

They all, perhaps unknowingly, share one thing in common; they are using equipment either manufactured or distributed by Emco.

Emco today is an international company that reaches far beyond its native shores to provide world commerce and industry with skills and products to build a better way of life.

EMCO LIMITED, BOX 3300, TERMINAL A, LONDON, CANADA



*This is Emco . . .
A Canadian and International Company
marketing its products in over 100 countries.*